BARTON BRANDS INC.

ANNUAL REPORT 1971


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BARTON'S QT American Premium Whiskey has been received with enthusiasm by wholesalers, retailers and consumers since its introduction this year. This brand is our entry into the new "light whiskey" category, and it shows every sign of duplicating the exceptionally rapid sales growth of Canadian Mist.

FINANCIAL HIGHLIGHTS

YEAR ENDED JUNE 30	1971	1970
Net Sales	**$128,719,389**	$120,066,943
Federal Excise Taxes	**89,460,000**	82,714,000
Net Earnings Before Income Taxes	**4,163,220**	4,133,535
Provision for Income Taxes	**2,062,000**	2,100,000
Net Earnings	**2,101,220**	2,033,535
Earnings Per Share of Common Stock	**.78**	.76
AT JUNE 30		
Total Assets	**$ 79,944,177**	$ 74,811,158
Total Liabilities	**50,974,660**	47,974,403
Working Capital	**45,691,194**	42,779,090
Shareowners' Equity	**29,019,517**	26,836,755
Book Value Per Share of Common Stock	**10.81**	9.99

Earnings per share are based on the weighted average shares outstanding in each year reflecting stock dividend paid in fiscal 1971.

LETTER TO SHAREOWNERS

RESULTS OF OPERATIONS

Barton Brands set records again in fiscal 1971. Sales and earnings reached new highs, reflecting the success of the greatly expanded brand marketing programs of recent years.

Company sales outpaced the industry by growing by 7 per cent to $128,719,000 from the previous year's record of $120,067,000 in a year in which industry sales grew by only two per cent.

Earnings for the year also set a new record in spite of a three-cents-per-share charge reflecting engineering and design expenses relating to the new bottling plant project for Bardstown which has been postponed indefinitely because of the sale by the Company of its Canadian whisky business. Notwithstanding the write off, earnings increased to $2,101,000, or 78 cents per share, compared with the previous record of $2,034,000, or 76 cents per share set in fiscal 1970.

SALE OF CANADIAN WHISKY BUSINESS

On August 27, 1971, the Company's shareowners approved a plan of complete liquidation and dissolution of the Company and the sale of the Company's Canadian whisky business to Brown-Forman Distillers Corporation for an amount in excess of $34,000,000. The sale to Brown-Forman was completed on August 31. The exact purchase price will be determined by an audit now in progress. Of the total purchase price, $10,500,000 was paid in cash on August 31, and Brown-Forman has assumed a $2,967,300 debt owed by the Company to a Canadian bank. The balance of the purchase price, as determined by the auditors, will be paid by Brown-Forman through the issuance of its six per cent, five-year promissory notes to be dated and bear interest from August 31. The notes will be payable in five equal annual installments commencing August 31, 1972; $5,000,000 in principal amount of the notes with the latest maturities are to be placed in an escrow as protection to Brown-Forman against certain contingencies.

THE PLAN OF LIQUIDATION

It is certainly unorthodox, if not unique, for a publicly-held company to consider liquidation at the very moment that it is experiencing record sales and earnings. We believe, however, that the plan is in the best financial interest of all shareowners.

We would like to share with you some of the business philosophy which has brought the Company to this point. Because of legal and other considerations, Brown-Forman was not able to acquire all of our business. The sale price of the Canadian business will result in a pre-tax gain of well over $8.00 per share, a profit which will exceed those that would have come to our shareowners from the contribution of the Canadian whisky business for many years into the future. Moreover, since the successful completion of the proposed plan of liquidation will minimize corporate tax on the sale, our shareowners may receive these gains subject only to their personal income taxes, rather than to two levels of taxes.

We consider that the term "Complete Liquidation and Dissolution," while technically accurate, may be misleading in that the Company's remaining business will most likely be continued through sale to new owners. The Company's remaining business and its prospects are described later in this report.

OSCAR GETZ
Chairman of the Board

LESTER S. ABELSON
President

HOUSE OF STUART Scotch whisky continues to gain a preferential position among knowledgeable consumers who want the taste of a light Scotch and the economy of U.S.-bottled Scotch whisky. The brand's case sales increased seventy-five percent over the past five years.

The plan of liquidation is pursuant to Section 337 of the Internal Revenue Code, a liquidation and dissolution provision of the Federal income tax laws, which, among other things, requires that the plan be completed within 12 months from the date of its adoption.

If the requirements of Section 337 are met, then, with certain minor exceptions stated in Section 337, the Company believes that no taxable gain will be recognized by it from the sale or exchange by it of property, including the profit from the sale of the Canadian whisky business, within the twelve-month period. The Company also believes that any liquidating distribution to its shareowners will be a taxable transaction at the time of distribution by the Company, that gain or loss will be recognized to each shareowner to the extent of the difference between the amount of such distribution to or on behalf of such shareowner and the adjusted basis of his shares in the Company, and that such gain or loss will be a capital gain or loss if the stock is a capital asset in his hands.

In order to maximize further the proceeds, under the liquidation plan, Barton's board of directors has under consideration a program under which the Company's aging whisky inventories could be transferred to a liquidating trust for the benefit of the Company's shareowners. Under that program, the purchaser of the business would buy the whiskies from the trust as they mature, thereby minimizing the purchaser's investment in acquiring the business. The shareowners, in turn, could realize increased proceeds from the sale of such whiskies.

No agreements have been reached with any company or persons concerning the sale of Barton's remaining assets, although there have been discussions with firms within and outside the distilling industry, as well as with a group of Barton's key executives.

Only after such a sale has been arranged and the purchaser, purchase price and terms have been identified, will we be able to disseminate information concerning the form and timing of the distribution of the proceeds from liquidation to our shareowners.

Additional information concerning the sale to Brown-Forman and the plan of liquidation is included in footnote 8 to the financial statements for fiscal 1971 which appears on page 15 of this report.

THE REMAINING BUSINESS

The Company is not resting on its oars while seeking a home for its remaining business. We are pushing ahead with aggressive advertising, sales promotion and marketing programs. We very much intend to continue aggressively to protect and build Barton's business and assets until we sell them. We project fiscal 1972 sales at the $100 million level even without the Canadian business. In other words, after selling what in fiscal 1971 accounted for approximately 29 per cent of our case goods sales, we still have a strong, healthy organization.

We have many millions of dollars of assets. These assets comprise a complete assortment of high quality aging whisky inventories, production facilities

VERY OLD BARTON, our eight-year-old straight bourbon whiskey, continues to gain favor in its highly-selective segment of the bourbon market. Over the past five years, the brands case sales have quadrupled.

and strong brands, such as Very Old Barton bourbon, House of Stuart Scotch and our new Barton's QT premium American whiskey.

We also have additional brands in the planning stages, and we have the skilled, young executive and marketing team that took Canadian Mist from nowhere to over one million cases in four years. So, we have a substantial existing business in established brands and we have new products planned, and the importance of this cannot be overemphasized.

Barton's QT is our entry into the new liquor classification called "Light Whiskey." This is a new kind of whiskey. It is produced from American corn, much as are bourbon and Canadian whiskies, but aged under the same conditions as Canadian and Scotch whiskies.

In 1967, the Internal Revenue Department, after lengthy hearings, amended the liquor standards in order to enable American distillers to make whiskey of a light character to be called "Light Whiskey," to compete with foreign distillers. The President's recently announced Economic Program, particularly the imposition of the import surcharge and the readjustment of international currency rates, should enhance the position of American whiskeys in competing with imported Scotch and Canadian whiskies.

It has a lighter taste than traditional bourbon. It is the American distilled spirit's industry's answer to the skyrocketing consumer preference for lighter taste in whiskey. It is a brand new American whiskey.

Light whiskey is new in that it was first authorized in 1968 and cannot be sold in the United States until 1972, but Barton has produced this type of whiskey for years, largely for export sales, and you can buy Barton's QT at your neighborhood package store today. It is the same product that will be called light whiskey next July. Nobody is getting the jump on us. Nobody is ahead of us. And—we're convinced of this—nobody has a better product.

Barton Brands chose the occasion of the annual wholesalers' meeting in Honolulu last May to introduce Barton's QT Premium American Whiskey to the industry.

Distributors' initial reaction was excellent. They immediately recognized the quality of the new product and enthusiastically approved the traditional whiskey "amber" color of Barton's QT, which contrasts markedly from the colorless prototype product of other distillers.

The wholesalers, who as a group are extremely knowledgeable concerning consumer advertising and in-store displays, quickly endorsed the materials Barton had created especially for the initial marketing.

In June, the first shipments of Barton's QT were made to introductory markets of Minnesota and Chicago. Then, in rapid succession, distribution was extended to 17 more markets. In each of these markets, distributor and retailer response was excellent. Within 60 days, Barton's QT had a higher level of distribution than did Canadian Mist after it had been in distribution more than two years.


BARTON
BOURBON

While these introductory markets were being reached, applications were made for control state listings, which normally are extremely difficult to obtain. Immediate listings were obtained in five control states, in each of which Barton's QT is the only light whiskey prototype now offered for sale.

As advertising appeared in each local market and sales began an area-by-area climb, it became apparent to Barton's marketing group that the Company had an opportunity to establish a pre-eminent position in the new category which will become known as "Light Whiskey" under federal rulings effective next July 1. To capitalize upon the opportunity, Barton will supplement local advertising with a national advertising program.

A special $1 million advertising campaign will be concentrated in a 60-day period from mid-October through mid-December. Thus, in the first half of fiscal 1972, Barton will have invested approximately $2 million in local and national advertising and sales promotion efforts for its new Barton's QT brand.

The national program will consist of four-color, full-page advertisements in seven magazines—*Life, Look, New York, The New Yorker, Newsweek, Sports Illustrated* and *Time*. The objective of this special program is to create a market position for Barton's QT before other major distillers introduce their light whiskeys.

Introduction of Barton's QT already has been successful. By the first of October, Barton's QT will have reached distribution in all 32 open state markets and 10 of the control states. This will give it the highest distribution level of any of the new whiskey prototype brands.

Because of the success of the introductory marketing program, Barton Brands has established a sales goal of 200,000 cases for Barton's QT in fiscal 1972. This would set a mark which we believe has been exceeded only once before in the history of the distilled spirits industry. Our goal is to have Barton's QT reach the 300,000 case level in calendar 1972—a potential growth outpacing even that of Canadian Mist.

We are convinced that Barton Brands has the people, the product potential and the existing organization to reach the $100 million mark in terms of net worth within 10 years. Whatever form the new Barton evolves into, we are also convinced that Barton Brands will remain a strong, viable factor in the distilled spirits industry.

Lester S. Abelson

OSCAR GETZ
Chairman of the Board

LESTER S. ABELSON
President

STATEMENT OF CONSOLIDATED EARNINGS FOR THE YEARS ENDED JUNE 30 (NOTE 8)

	1971	1970
Net sales	**$128,719,389**	$120,066,943
Cost of sales	**107,608,365**	101,578,043
Gross profit on sales	**21,111,024**	18,488,900
Marketing and administrative expenses	**14,492,216**	11,809,750
Operating income	**6,618,808**	6,679,150
Other (income) or deductions		
Interest expense and amortization of debt discount and expense	**2,751,958**	2,746,272
Other income—net	**(309,610)**	(298,319)
Equity in operations of foreign affiliates (Note 1)	**13,240**	97,662
	2,455,588	2,545,615
Earnings before income taxes	**4,163,220**	4,133,535
Provision for income taxes	**2,062,000**	2,100,000
Net earnings	**$ 2,101,220**	$ 2,033,535
Earnings Per Share of Common Stock	**$ .78**	$ .76

Earnings Per Share of Common Stock are based upon the weighted average of common stock outstanding during each year, adjusted retroactively for subsequent stock dividends and after providing for preferred stock dividends of $11,250.

The accompanying Notes are an integral part of this statement.

CONSOLIDATED BALANCE SHEET JUNE 30 (NOTE 8)

ASSETS	**1971**	1970
Current assets		
Cash	**$ 3,725,636**	$ 3,033,520
Receivables		
Trade (less allowance for doubtful accounts—$244,860 and $244,205 respectively) (Note 3)	**15,656,926**	14,377,166
Other	**375,684**	343,656
Inventories, at lower of cost or market (Notes 2 and 3)		
Bulk whiskeys	**44,544,052**	40,553,012
Case goods	**3,505,079**	4,084,516
Raw materials and supplies	**978,547**	1,591,773
Total current assets	**68,785,924**	63,983,643
Property, plant and equipment—at cost		
Land	**225,800**	140,339
Buildings, machinery, and equipment	**12,280,847**	11,648,838
	12,506,647	11,789,177
Less accumulated depreciation and amortization	**4,885,403**	4,116,861
	7,621,244	7,672,316
Other assets and prepaid expenses		
Investments in and advances to foreign affiliates (Notes 1 and 3)	**2,720,764**	2,513,530
Non-current receivable, prepaid expenses and deferred charges	**866,245**	641,669
	3,587,009	3,155,199
	$79,994,177	$74,811,158

The accompanying Notes are

BARTON BRANDS INC.
and Consolidated Subsidiaries

LIABILITIES AND STOCKHOLDERS' EQUITY	1971	1970
Current liabilities		
Notes payable (Note 3)		
Banks	$ 8,500,000	$ 9,000,000
Current maturities—long-term debt	3,189,230	2,575,000
Accounts payable—trade	884,609	1,169,726
Accrued liabilities		
Taxes, other than income taxes (including Federal excise tax)	8,143,072	6,102,768
Other	1,480,441	1,376,349
Federal and state taxes on income	897,378	980,710
Total current liabilities	23,094,730	21,204,553
Long-term debt (Note 3)	26,304,470	25,322,000
Deferred income taxes	1,575,460	1,447,850
Stockholders' equity (Notes 3 thru 6)		
Preferred shares, $100 par value, 6% cumulative—authorized, issued and outstanding 1,875 shares (Note 6)	187,500	187,500
Common shares, $1 par value—authorized 3,000,000 shares; issued—1971—2,672,759 shares; 1970—2,569,961 shares	2,672,759	2,569,961
Additional paid-in capital	6,950,266	6,185,628
Contributed capital (Note 4)	1,189,300	1,104,876
Retained earnings (Note 3)	18,081,487	16,862,216
	29,081,312	26,910,181
Less—common shares held in treasury, at cost—1971—6,116 shares; 1970—6,835 shares	61,795	73,426
	29,019,517	26,836,755
	$79,994,177	$74,811,158

an integral part of this statement.

BARTON BRANDS INC.
and Consolidated Subsidiaries

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

YEARS ENDED JUNE 30 (NOTE 8)

	1971	1970
Balance at beginning of year	**$16,862,216**	$15,645,281
Net earnings	**2,101,220**	2,033,535
	18,963,436	17,678,816
Dividends:		
Cash dividends—6% cumulative preferred stock at $6.00 per share	**11,250**	11,250
Stock dividends—common stock, on common at 4%	**870,699**	805,350
	881,949	816,600
Balance at end of year (Note 3)	**$18,081,487**	$16,862,216

STATEMENT OF CONSOLIDATED ADDITIONAL PAID-IN CAPITAL

Balance at beginning of year	**$ 6,185,628**	$ 5,460,783
Excess of market value over par value of common stock issued for stock dividend	**767,901**	706,776
Difference between market value and cost of shares issued for stock bonuses and options	**—**	18,069
	6,953,529	6,185,628
Excess of cost of treasury shares over market value of shares issued as contribution to salaried employees trust	**3,263**	—
Balance at end of year	**$ 6,950,266**	$ 6,185,628

The accompanying Notes are an integral part of these statements.

BARTON BRANDS
INC.
and Consolidated Subsidiaries

STATEMENT OF CONSOLIDATED SOURCE AND USE OF FUNDS

YEARS ENDED JUNE 30 (NOTE 8)

	1971	1970
SOURCE OF FUNDS:		
From operations:		
Net earnings for year	$ 2,101,220	$ 2,033,535
Depreciation and amortization (on a straight-line method)	805,071	739,670
Increase in deferred income tax	127,610	368,000
	3,033,901	3,141,205
Increase in long-term debt	5,451,470	2,970,000
Capital contributed through foreign government grants	84,424	182,236
Net change in treasury shares	8,368	53,686
Issuance of common stock	—	36,779
Total	$ 8,578,163	$ 6,383,906
USE OF FUNDS:		
Increase in working capital	$ 2,912,104	$ 21
Additions to property and plant—Net	753,999	1,611,440
Decrease in long-term debt	4,469,000	4,230,000
Dividends paid on preferred stock	11,250	11,250
Increase (decrease) in non-current receivable, prepaid expenses and deferred charges	224,576	(71,227)
Increase in advances to and investments in foreign affiliates	207,234	602,422
Total	$ 8,578,163	$ 6,383,906

INCREASES (DECREASES) IN WORKING CAPITAL COMPONENTS:

	1971	1970
Cash	$ 692,116	$ (1,706,747)
Receivables	1,311,788	(2,234,817)
Inventories	2,798,377	2,162,315
Net increase (decrease) in current assets	4,802,281	(1,779,249)
Notes payable—bank loans	(500,000)	(500,000)
Current maturities—long-term debt	614,230	(46,000)
Accounts payable—trade	(285,117)	(390,709)
Accrued liabilities	2,144,396	(1,347,907)
Federal and state income taxes	(83,332)	505,346
Net increase (decrease) in current liabilities	1,890,177	(1,779,270)
Increase in working capital	$ 2,912,104	$ 21

The accompanying Notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended June 30, 1971

(1) Principles of Consolidation

The accounts of United States and Canadian subsidiaries (all of which are wholly-owned) have been consolidated. The investments in other foreign affiliates owned 50 per cent or more are reflected at the Company's cost plus its equity in operations since acquisition. No provision for Federal income taxes has been made on the undistributed earnings, since such earnings will be taxable as dividends, if, and when received by the Company. Substantially all of these earnings have been invested in the business and are not available for the payment of dividends.

In January, 1971 the Company acquired the balance of the ownership (50%) of Barton Distilling (Scotland) Ltd. (formerly Littlemill Distillery Co., Ltd.) and Loch Lomond Bonding Company Limited, of Scotland (see note 3). As of February 28, 1971 a statutory merger of Barton Western Distilling Co. (formerly a domestic subsidiary) into Barton Brands, Inc. was effected.

Intercompany profits, transactions, and balances have been eliminated in consolidation. With respect to foreign affiliates stated at cost plus equity in operations, intercompany profits have been eliminated.

(2) Inventories

Cost of bulk whiskeys produced by Barton Brands, Inc. and included in the closing inventory of the parent company is recorded on the last-in, first-out (Lifo) basis, which is less than market, applied to the whiskey produced in each fiscal year, including quantities which were sold and subsequently repurchased. Such Company-produced bulk whiskeys valued under the Lifo method, including carrying charges, were as of June 30, 1971 and 1970, $26,288,839 and $23,846,547, respectively. Company-produced bulk whiskey repurchased from outsiders by a consolidated subsidiary is valued at the lower of specific identification repurchase cost or market. Purchased bulk whiskey produced by others is valued at the lower of specific identified cost or market. Other inventories are priced at the lower of cost (first-in, first-out or average) or market.

Because of generally accepted trade practices, inventories of bulk whiskeys have been included in current assets regardless of the aging process period.

Bulk whiskeys are stored under Government bond. Federal, state and other taxes on spirits in bond, which constitute a lien on the inventories of such spirits and which are not payable until withdrawal from bond, are not entered as a liability in the accounts until such withdrawal is made.

(3) Long-Term Debt and Collateral Pledged

The long-term debt at June 30, 1971 consisted of the following:

Secured Notes, under separate indentures	
5¼% due August 1, 1971	$ 155,000
7 % due April 1, 1972	1,220,000
6½% due September 1, 1972	520,000
7½% due September 15, 1972	1,060,000
5¼% due August 1, 1973	276,000
9¾% due October 14, 1973	1,170,000
6½% due September 1, 1974	520,000
9¾% due October 15, 1974	1,225,000
6¾% due August 31, 1975	615,000
6¾% due September 1, 1975	615,000
7½% due September 15, 1976	1,030,000
9¾% due October 14, 1977	1,800,000
10 % due October 15, 1978	1,275,000
Total (collateralized by bulk whiskey inventory in bond at cost of $13,241,789)	$11,481,000
6.435% Term loan under Loan Agreement payable in annual installments of $790,000 on October 31, 1971 to 1982 and $786,000 on October 31, 1983	10,266,000
5½% Subordinated Notes (under Purchase Agreements)—	
Series A, payable in annual installments of $333,000 on February 1, 1972 to 1975 and $128,000 on December 1, 1975	1,460,000
Series B, due December 1, 1975	1,875,000
7% mortgage notes payable in annual installments of $77,000 on May 1, 1972 to 1981 and $76,000 on May 1, 1982 (collateralized by mortgage on Canadian distillery)	846,000
Term loan under Line of Credit Agreement payable in annual installments of $494,550 on March 15, 1972 to 1975 and $989,100 on March 15, 1976 (collateralized by bulk whisky inventory in bond at cost of $3,193,609) (interest rate 1¼% over lender bank's minimum lending rate)	2,967,300
Balance due on purchase of Littlemill and Loch Lomond stock payable in annual installments of $119,680 on October 1, 1971 to 1975	598,400
Total	$29,493,700
Current maturities	3,189,230
Long-term portion	$26,304,470

Under the Loan Agreement (6.435% term loan) with The Mutual Life Insurance Company of New York and the Line of Credit Agreement (short-term loan) with the American National Bank and Trust Company of Chicago, as Agent for the several banks, the Company is required to maintain trade accounts receivable and whiskey inventories free and clear of liens and encumbrances (except for governmental tax liens and charges on whiskey not yet due) in specified percentages of the outstanding aggregate indebtedness under the term and line of credit loans, and upon request, the Company shall assign the above described assets as collateral security for the aforementioned loans.

During December, 1970 Barton Distilling (Canada) Limited entered into an agreement with the Canadian Imperial Bank of Commerce, providing for a $2,967,300 long-term line of credit. As of August 31, 1971 this debt was assumed by the purchaser of the Company's Canadian whisky business, the sale of which is described in Note 8. Also in connection with the sale of the Canadian whisky business the 7% mortgage notes payable in the amount of $846,000 were paid on August 13, 1971.

During January, 1971 the Company purchased the remaining 75,000 shares (50%) of Littlemill Distilling Co., Ltd. stock and the remaining 50 shares (50%) of Loch Lomond Bonding Co., Ltd. stock for $783,904. The principal balance due of $472,736 (after a down payment of $311,168) is payable in annual installments of $119,680, including interest, on October 1, 1971 to 1975.

During October, 1970 the Company entered into a new agreement with several banks and American National Bank and Trust Company of Chicago, as Agent, under which the line of credit with respect to short-term loans (Notes payable—Banks) was renewed for $12,500,000 and was extended to October 31, 1971.

The various loan agreements contain certain restrictions relating to, among other things, payment of cash dividends, acquisition of capital stock and debt limitations. Under the most restrictive provisions the amount of consolidated retained earnings available for payment of cash dividends was approximately $2,350,000 at June 30, 1971.

(4) Contributed Capital

One of the Company's wholly-owned subsidiaries, together with one of its affiliates, have received grants in aid as an incentive for the construction of distilling facilities in foreign countries, as follows:

Country	Amount
Canada	$1,069,212
United Kingdom	120,088
Total	$1,189,300

(5) Stock Options

Under the corporation's Stock Option Plan, key executive employees may be granted options to purchase common stock at 100% of market value at the date of granting. As of June 30, 1971 there were 72,913 common shares reserved under plans on which options for 47,013 common shares had been granted. Of the total options outstanding, 29,989 were exercisable. During the year ended June 30, 1971, no options were granted, exercised or cancelled.

Options outstanding at June 30, 1971 were exercisable at prices ranging from $5.04 to $11.24.

(6) Preferred Stock

The preferred stock is non-voting, and is callable at the option of the Company at $104 per share plus unpaid cumulative dividends. In the event of liquidation, voluntary or involuntary, the holders of the preferred stock are entitled to receive par value plus unpaid cumulative dividends before payment on any other class of stock.

On August 12, 1971 the Company declared and paid a dividend of $6.00 per share on the preferred stock.

(7) Salaried Employees Trust

The Company has a non-contributory trust for salaried employees, to which contributions from earnings are made in such amounts as are determined by the Company each year. The amounts charged against earnings for the fiscal years ended June 30, 1971 and 1970 were approximately $200,000 and $174,000, respectively.

(8) Plan of Complete Liquidation

(a) On August 27, 1971 the Company's stockholders approved a plan of complete liquidation and dissolution pursuant to Section 337 of the Internal Revenue Code and Section 275 (and other sections) of the Delaware General Corporation Law. Pursuant to the aforementioned plan, the Company sold its Canadian whisky business on August 31, 1971 (the sale of which is described below) and expects to proceed (a) to sell such of its remaining properties for such consideration and upon such terms as the Company's Board of Directors shall

determine; (b) to wind up the Company's business and affairs and complete its formal dissolution under Delaware law; and (c) to collect its assets and after paying or adequately providing for the payment of all of its obligations (which may involve the assumption of such obligations by the purchasers of assets), to distribute the remainder of its assets, either in cash or in kind, in one or more distributions (all as determined by the Company's board of directors without further approval of the stockholders) among its stockholders according to their respective rights and interests.

The distribution to the stockholders of the Company will be in complete cancellation of all of the Company's preferred and common stock. A preferential liquidating distribution, in cash, will be made to the holders of the Company's 1,875 shares of non-voting 6% cumulative preferred stock in the amount of $100 per share plus any unpaid cumulative dividends accrued thereon. The Company will distribute to the holders of its common stock all of its remaining assets, properties and rights (less any assets retained to meet claims of creditors). The plan empowers the Company's board of directors, among other things, to arrange for the transfer to liquidating trustees of certain assets of the Company.

The Company's management is actively seeking possible purchasers for the Company's non-Canadian assets and business, but no agreements or understandings have been reached with respect to the disposition thereof.

While the amounts and times of distributions to the Company's stockholders cannot be accurately determined at this time pending disposal of the Company's remaining properties, such distributions must be accomplished by August 26, 1972 in order to qualify for the Federal income tax treatment described below. In the event that the plan is not completed within the statutory twelve-month period, an estimated $9,500,000 of income taxes will be payable by the Company as a result of the sale of the Canadian whisky business.

If the requirements of Section 337 are met, then, with certain exceptions stated in Section 337, the Company believes that no taxable gain or loss will be recognized by it from the sale or exchange by it of property within the said twelve-month period. The Company also believes that any liquidating distribution to the stockholders (including a distribution to a liquidating trustee on their behalf) will be a taxable transaction at the time of distribution by the Company, that gain or loss will be recognized to each stockholder to the extent of the difference between the amount of such distribution to or on behalf of, such stockholder and the adjusted basis of his shares in the Company, and that such gain or loss will be a capital gain or loss if the stock is a capital asset in his hands. No ruling has been requested by the Company from the Internal Revenue Service with respect to the foregoing regarding income tax considerations, and the Company has no present intent to request such a ruling.

Completion of the plan to liquidate will require repayment of Federal investment tax credits up to a maximum of $295,000. In addition, the Company has various contractual obligations with consultants and certain key employees and under leases for personal and real properties. The maximum liability under the above obligations is approximately $1,100,000. These obligations involve expenses chargeable to operations. If the operations of the Company were to terminate as of December 31, 1971 or June 30, 1972, without the assumption of such obligations by the transferees of the Company's remaining business, the remaining obligations are estimated as $850,000 or $730,000, respectively. Additional liability may accrue from the possible termination of salaried and union employees.

If, in the judgment of the board of directors, the liquidation program does not provide a feasible means for the stockholders to realize the value of their investment in the Company, the plan may be terminated. In accordance with their established policies, the American and Midwest Stock Exchanges may give consideration to the suspension of trading in the Company's common stock at an appropriate point in the liquidation process.

(b) On August 31, 1971 the Company sold its Canadian whisky business consisting principally of the brand name "Canadian Mist," the Company inventories of Canadian Whisky and the capital stock of its Canadian subsidiary, which owns and operates a distillery and warehouses at Collingwood, Ontario.

Because there has been insufficient time to complete the necessary accounting work the final amounts involved in the sale have not been determined. However it is estimated that the assets sold had a net book value of approximately $12,000,000 and the purchase price (determined under a formula) is expected to total approximately $34,000,000, of which $10,500,000 was paid in cash, $2,967,300 by the assumption of indebtedness owed to a Canadian bank, and the balance by the issuance of promissory notes of the purchaser. These notes will carry a 6% interest rate and will be payable in five equal annual installments commencing August 31,

1972. Collection on the notes having the latest maturities is subject to certain escrow restrictions as protection to the purchaser, primarily with respect to Canadian income taxes. Of the total escrow amount ($5,000,000) the escrow period on $3,500,000 is estimated to expire at the end of 1976 and the balance ($1,500,000) at the end of 1978. Although there is no definitive plan, it is contemplated that the initial cash proceeds ($10,500,000) received from the sale of the Canadian business will principally be used to reduce short-term borrowings and to increase working capital.

The contribution to net earnings by the Canadian whisky business is not determinable because the Company's method of operations and system of accounting do not provide financial information segregated by types of whisky sold by the Company because of numerous overlapping responsibilities in the sales, general and administrative areas of the Company's business. However, the Canadian whisky business represented 25% and 29% of net sales dollars for the Company's fiscal years ended June 30, 1970 and 1971, respectively. Net assets related to the Canadian whisky business as of June 30, 1970 and 1971 was 10% and 11%, respectively of consolidated net assets.

(9) Contingencies

An agreement between the Company and three principal officer-stockholders, under which such officers are to be employed until November, 1971, provides that, in the event of any such officer's death, while in the employ of the Company, his widow or estate will receive post mortem benefits, equal to twice the deceased officer's annual salary, payable ratably over ten years. Such payments shall be made only if consolidated earnings (before income taxes and extraordinary items) are at least $2,600,000 for the preceding year. One of the officer-stockholders died September 5, 1971.

During June, 1971 the Company guaranteed a $610,000 five-year loan made by Barton Distilling (Scotland) Ltd., a wholly-owned United Kingdom subsidiary.

Three claims were asserted against the Company, one of which involves the Company's right to use one of its brand names. The other two claims involve alleged rights in a brand marketing concept formerly owned by the Company. The Company does not anticipate that any of these claims will result in any material liability or loss to the Company.

AUDITORS' REPORT

Board of Directors and Stockholders
Barton Brands, Inc.

We have examined the consolidated balance sheet of Barton Brands, Inc. and subsidiaries as of June 30, 1971, and the related consolidated statements of earnings, retained earnings, additional paid-in capital and source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain unconsolidated foreign subsidiaries and affiliates, which statements reflect total assets and income constituting 7% and 3%, respectively, of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein insofar as it relates to the amounts included for these subsidiaries and affiliates is based solely upon such reports. The financial statements for the preceding year were examined by a firm of certified public acccountants, which firm has since merged with us.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the Company as a going concern. However, as described in Note 8, the shareholders of the Company have adopted a plan of complete liquidation and pursuant to that plan the Company has sold its Canadian whisky business. The amounts to be realized from the disposition of the remaining assets are dependent on factors which are not determinable at the present time.

In our opinion, based on our examination and the reports of other auditors, subject to adjustments, if any, which might result from the uncertainties discussed above, the financial statements referred to above present fairly the financial position of Barton Brands, Inc. and subsidiaries at June 30, 1971 and the results of their operations and sources and uses of funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois
September 9, 1971

Alexander Grant & Company

BARTON BRANDS INC.
and Consolidated Subsidiaries

TEN-YEAR FINANCIAL SUMMARY

(Dollars in thousands, except per share amounts)

FOR FISCAL YEARS ENDED JUNE 30	1971	1970
Net Sales	**$128,719**	$120,067
Case Goods Sales	**127,576**	117,293
Net Earnings Before Income Taxes	**4,163**	4,134
Provision for Income Taxes	**2,062**	2,100
Net Earnings	**2,101**	2,034
Earnings per Share of Common Stock	**.78**	.76
Federal Excise Taxes	**89,460**	82,714
State Taxes (other than income taxes)	**931**	1,001
Investment in Plant and Equipment—at Cost (before depreciation)	**12,507**	11,789
Inventories—at Cost	**49,028**	46,229
Long-Term Debt	**26,304**	25,322
Total Assets	**79,994**	74,811
Total Liabilities	**50,975**	47,974
Shareowners' Equity	**29,019**	26,837
Book Value per Share of Common Stock	**10.81**	9.99
Number of Employees (actual number)	**650**	617
Investment per Employee	**123**	121

Earnings per share figures are based on

1969	1968	1967	1966	1965	1964	1963	1962
$114,218	$114,430	$101,708	$93,727	$87,454	$84,703	$79,951	$70,583
110,637	107,416	99,544	91,147	86,264	83,988	78,545	68,492
3,746	2,654	3,170	3,365	3,439	3,383	2,950	4,019
1,926	1,290	1,510	1,610	1,680	1,743	1,619	2,120
1,820	1,364	1,660	1,755	1,759	1,640	1,331	1,899
.68	.51	.62	.65	.66	.61	.50	.71
79,282	77,543	73,084	67,666	62,736	61,283	56,292	48,409
1,204	1,296	1,433	1,139	1,010	743	776	1,105
10,211	8,499	7,476	5,891	5,484	5,175	5,154	4,825
44,067	37,938	40,370	34,365	28,701	24,406	21,753	19,724
26,582	25,287	22,834	20,167	17,119	16,472	17,105	15,042
75,187	65,767	70,183	62,051	52,341	47,609	43,503	39,843
50,645	43,648	49,563	43,472	35,368	32,318	29,691	27,324
24,542	22,119	20,620	18,579	16,973	15,291	13,812	12,519
9.18	8.37	7.79	7.00	6.36	5.71	5.08	4.59
590	577	571	458	412	441	431	468
127	114	123	135	127	108	101	85

weighted average shares outstanding during the year reflecting subsequent stock dividends.

In Memoriam

We regret to announce the passing on September 5, 1971 of Morton S. Abelson, Executive Vice President, Director and one of the founders of Barton Brands, Inc. We all have benefited from the ability and integrity of this outstanding leader who rendered exceptional service. The Board of Directors is now deprived of his sound judgment and wise counsel. We dedicate this annual report to his enduring memory.

Members of Barton's young top executive team (average age 41) have shared responsibility for the company's growth over the past three years. The group, representing administration, development, finance, marketing, production and sales, conceived and implemented the programs that successfully took Canadian Mist sales over 1 million cases in an unprecedented period of time. Now this same team will be applying its capabilities to "Barton's QT American Whiskey," our new entry which is expected to rival or even surpass Canadian Mist's success. (From left to right, standing) Stuart L. Sax, Vice President— Marketing Manager; William M. Getz, Vice President and General Sales Manager; Jerry Adler, Vice President–Director of Marketing & Sales; and Duane H. Maas, Vice President–Administration and General Manager. (From left to right, seated) Paul L. Kraus, Vice President–Production; Fred R. Mardell, Vice President and Secretary; and Ralph D. Silver, Financial Vice President and Treasurer.

Directors and Officers

BOARD OF DIRECTORS

Lester S. Abelson
W. Yost Fulton
Oscar Getz
Ralph D. Silver
Harry N. Wyatt

OFFICERS

Oscar Getz
Chairman of the Board
Lester S. Abelson
President
Duane H. Maas
Vice President—Administration and General Manager
Jerry Adler
Vice President—Director of Marketing & Sales
Paul L. Kraus
Vice President—Production
Ralph D. Silver
Financial Vice President and Treasurer
William M. Getz
Vice President and General Sales Manager
Robert K. Kinsey
Vice President—Manager of Marketing Communications
Fred R. Mardell
Vice President and Secretary
Robert G. Miller
Vice President and Control States Sales Manager
Stuart L. Sax
Vice President—Marketing Manager
Herb Collins
Vice President and Open States Sales Manager
Roy Flint
Vice President and Divisional Sales Manager
Frank Wall
Vice President and Divisional Sales Manager
Sydney A. Weinstock
Vice President and Divisional Sales Manager
Raymond E. Powers
Controller
F. Zuckerberg
Assistant Secretary and Assistant Treasurer
A. Keene
Assistant Treasurer
Sheldon Pines
Assistant Treasurer

TRANSFER AGENTS

American National Bank
and Trust Company of Chicago
Manufacturers Hanover
Trust Company, New York

REGISTRARS

Harris Trust and Savings Bank, Chicago
United States Trust
Company of New York

STOCK LISTING

American Stock Exchange
Midwest Stock Exchange
(Symbol—BBR)

The Annual Meeting will be held at 10:00 a.m. on Wednesday, October 13th, at Barton's Executive Offices, 17th Floor, 200 South Michigan Avenue, Chicago, Illinois 60604.